

**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**



**Audit of the  
Cable Commission**

**July 2006 – June 2008**



**City of Detroit**  
**OFFICE OF THE AUDITOR GENERAL**  
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LOREN E. MONROE, CPA  
AUDITOR GENERAL

**MEMORANDUM**

**DATE:** February 20, 2009

**TO:** Honorable City Council

**FROM:** Loren E. Monroe, CPA  
Auditor General *Loren E. Monroe*

**RE:** Audit of the Cable Commission

**CC:** Mayor Kenneth V. Cockrel, Jr.  
Celeste McDermott, Director – Cable Commission  
Joseph L. Harris, Chief Financial Officer  
Shannon Holmes, Director – Human Resources Department

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Attached for your review is our report on the audit of the Cable Commission. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit findings and recommendations; and the response from the Cable Commission, the Finance and Human Resources Departments.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Cable Commission and the Finance Department. Responsibility for monitoring the implementation of recommendations is set forth in Section 4-205 of the City Charter which states in part:

Recommendations that are not put into effect by the agency shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action being taken with respect to the recommendations.

We would like to thank the employees of the Cable Commission for their cooperation and assistance extended to us during this audit.

Copies of all of the Office of the Auditor General reports can be found on our website at [www.ci.detroit.mi.us/legislature/CharterAppointments/AuditorGeneral](http://www.ci.detroit.mi.us/legislature/CharterAppointments/AuditorGeneral).

# **Audit of the Cable Commission's Internal Controls**

**July 2006 – June 2008**

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## **AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS**

### **AUDIT PURPOSE**

The audit of the Cable Commission (Commission) was performed in accordance with the Office of the Auditor General's (OAG) Charter mandate to audit the financial transactions of all City agencies at least once every two years and report findings and recommendations to the City Council and the Mayor.

### **AUDIT SCOPE**

The OAG performed an assessment of the Commission's internal control procedures for transactions of cash receipts, revenue, payroll, disbursements, inventory and capital assets for the period July 1, 2006 through June 30, 2008, and the status of prior audit findings.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

### **AUDIT OBJECTIVES**

The overall audit objectives were:

- To assess the Commission's system of internal controls related to financial transactions.
- To determine the Commission's compliance with Finance Directives, policies, plans, procedures, laws and regulations regarding financial transactions.
- To conduct a follow-up review of the audit findings and issues of non-compliance from the prior audit report.

### **AUDIT METHODOLOGY**

To accomplish our audit objectives, our audit work included:

- Interviews with staff of the Commission, and documentation of their processes;
- Review of the Commission's internal controls and relevant Finance Directives;
- Review of information obtained from the Commission's Wireless Committee, Detroit Resource Management System (DRMS), departmental records concerning cash receipts for any evidence of fraud or misappropriation; and
- Other audit procedures that we considered necessary to achieve our audit objectives.

## **CONCLUSIONS**

As a result of our audit we have concluded that:

- Internal controls over financial transactions were inadequate; management oversight of financial related matters was inadequate; and adequate separation of duties related to financial transactions was not maintained.
- The Commission did not fully comply with all Finance Directives.
- Two of the four prior audit findings remain unresolved.

## BACKGROUND

The primary purpose of the Cable Commission (Commission) is to provide oversight and ensure compliance of the video service operators with the terms and provisions of the current video service franchise agreements. The negotiation, issuance, and enforcement of all new telecommunication permits and video service agreements are additional responsibilities. The Commission is also responsible for the programming and operation of the Government and Educational Access cable channels, as well as providing video coverage and production services to City departments, the Mayor's Office, City Council, and for events relevant to Detroit and its residents. It also has responsibility for the administrative and financial processes that support its primary mission.

The Commission consists of seven Commissioners, four appointed by the Mayor and three appointed by Detroit City Council.

Two key Michigan statutes, the Uniform Video Services Local Franchise Act, 2006 PA 480 and the Metropolitan Extension Telecommunications Rights-of-Way Oversight Act, 2002 PA 48 (METRO Act), provide the legislative backbone for the Commission's respective responsibilities for the issuance and compliance of uniform video service franchise agreements, and telecommunications permits for access and on-going use of the city's rights-of-way.

The Director of the Commission is Celeste McDermott. She was appointed Interim Deputy Director in October 2005 and Director in February 2008. The following table shows the budgeted appropriations, revenues and number of staff for the Commission:

	<u>Fiscal Year Ended June 30</u>	
	<u>2007</u>	<u>2008</u>
Budgeted Appropriations	\$1,734,917	\$1,935,585
Budgeted Revenues	\$4,323,247	\$4,015,000
Budgeted Positions	10	10

## STATUS OF PRIOR AUDIT FINDINGS

The prior audit of the Cable Commission's Imprest Cash for the period July 2005 – August 2007, by the Office of the Auditor General, included the findings listed below.

1. Inappropriate Deposits and Disbursements from the Cable Commission's Imprest Cash Account Resulted in a Loss of \$170,627.29  
*This finding has been resolved.*
2. Lack of Segregation of Duties  
*This finding has not been resolved and is discussed in Finding 1.*
3. Lack of Controls Over Cash Receipts  
*This finding has not been resolved and is discussed in Finding 2.*
4. The Cable Commission Did Not Comply With The Policies and Procedures in The Imprest Cash Manual  
*This finding has been resolved.*

### OTHER FINDING RELATED TO THE FINANCE DEPARTMENT

1. Finance Department Imprest Cash Records Were Not Accurate  
*This finding has not been resolved and is discussed in Finding 1 under "Other Findings."*

## **AUDIT FINDINGS AND RECOMMENDATIONS**

### **1. Inappropriate Segregation of Duties**

One employee in the Cable Commission (Commission), who can receive fees, is also responsible for receiving cable fees, depositing receipts with the Finance Department-Treasury Division, maintaining a log of revenues and entering revenues into the Detroit Resource Management System (DRMS).

A primary internal control is the appropriate segregation of functional responsibilities or duties. The four general categories of responsibility are: custody, authorization, record keeping, and reconciliation. Ideally, a different employee should perform each of these four major functions. Responsibility for all of these functions should never be vested in one person, particularly as it relates to cash, which is highly susceptible to theft and misuse. If adequate segregation of duties cannot be achieved, compensating controls must be implemented to reduce the possible risks.

Inadequate segregation of duties, particularly of cash-related duties, provides the opportunity for multiple abuses including theft of funds, inappropriate expenditures, and inaccurate financial records.

Commission management stated that they have limited staff to appropriately segregate duties. Management stated that they are currently in the process of filling a vacancy that would allow them to further segregate duties. They further stated that responsibility for all activities related to wireless fee revenue is expected to be transferred to the Planning and Development Department in 2009. Franchise fee revenue will remain the responsibility of the Commission.

### **Recommendations**

We recommend that:

- The cash handling activities be divided among departmental employees in order to achieve proper segregation of duties;
- If duties cannot be segregated, an employee independent of the cash handling function, preferably a management employee, should perform frequent, periodic and detailed reviews of the work performed by employees having incompatible duties; and
- Duties should be periodically rotated among employees.



## **2. Controls Over Cash Receipts Are Inadequate**

Controls over cash receipts are inadequate. The following conditions exist which substantially weaken cash receipt controls:

- Wireless fees and franchise fees are not reconciled to the revenue postings or to DRMS reports;
- Wireless fees received are not reconciled to the cash receipts log;
- Not all wireless fees received are entered on the Wireless Tracking Log when received. Three of the nineteen checks received between January 1, 2008 and June 30, 2008 were not entered on the log;
- Cash receipts are not consistently deposited within 48 hours of receipt;
- Checks received by the Commission are not restrictively endorsed; and
- The Office Manager performs multiple cash handling responsibilities including receiving cash receipts, preparing bank deposits and entering the cash.

Good internal controls over cash receipts require that receipts be properly accounted for and discrepancies investigated and corrected. Good financial practices require that checks and other negotiable instruments be restrictively endorsed as soon as possible in order to limit the proceeds of the instrument being misused. Finance Directives 18 and 20 require that cash should be deposited within 48 hours of receipt.

Segregation of duties means that no single individual has control over two or more phases of a transaction or operation. It is a key internal control, whose purpose is to ensure that errors or irregularities are prevented, or detected, on a timely basis by employees in the normal course of business.

Failure to maintain adequate controls over cash receipts can result in multiple abuses including theft or misappropriation of receipts, and inaccurate financial records.

The Director stated that the Commission is short of staff. They are currently trying to hire additional staff members to improve operations.

### **Recommendations**

We recommend that:

- Cash receipts be reconciled to DRMS control accounts and to subsidiary accounts receivable records;
- Copies of checks for wireless application fees and a stamped Treasury receipt be attached to the applications for the Wireless Committee to review;
- Cash receipts be adequately safeguarded by complying with the requirements of Finance Directive 20 including depositing receipts within 48 hours, and immediately restrictively endorsing checks; and

- Cash handling responsibilities be adequately segregated so that no one individual has more than one responsibility in the cash handling process. If there are not a sufficient number of staff members to accomplish adequate segregation of duties, compensating controls must be implemented.

### **3. Inadequate Monitoring of the Payroll Process**

The Commission had a City of Detroit employee listed on their payroll register who never worked for the Commission. This is more fully discussed in Findings Related to Other Departments on page 14 as the Commission, the Human Resources Department-Payroll Division and the Finance Department-Accounts Division-Payroll Audit Section share responsibility for the situation.

Twenty-four employee time records were tested from fiscal year 2007. Five of the time records had either addition or classification errors. Four of the time sheets were corrected by Human Resources - Payroll. Of the 24 time records reviewed, eight had not been signed by the employee. Eighteen time records were tested from fiscal year 2008. One time record contained a computational error that was corrected by the Employee Division. One pay, per the payroll register, did not agree with the time record. Four of the time records were not signed by the employee.

Good internal controls require procedures to help prevent inaccurate payroll input, charges and costs. A satisfactory system of internal control should include:

- A written procedure for the review and approval of time records and payrolls;
- Confirmation of an employee's time record evidenced by the employee's signature; and
- Adequate record keeping procedures to provide effective control over payroll transactions.

The possibility of a major error or fraud is increased if the monitoring of City payrolls is weaker and less effective than is appropriate, especially considering the materiality of payroll costs.

Commission management stated that timekeeping procedures have been changed because the Commission is now using the new Workbrain computerized timekeeping system.

### **Recommendations**

We recommend that:

- The Commission review appropriate payroll reports to ensure that all payroll information is accurate; and
- Require all employees to sign or otherwise verify their time records.

#### **4. Record Keeping for Fixed Assets Is Inadequate and Does Not Conform to the Capital Asset Policy**

Although a physical inventory was conducted in June 2008, there is no evidence that the physical inventory was recorded in the Capital Asset System (CAS). Based on testing, it was determined that the Commission does not:

- Enter or update their capital asset records in the CAS for acquisitions and disposals. Assets were found that were not listed in the CAS;
- Enter transfers of assets between locations into CAS;
- Tag most of their items, and does not always perform the tagging within 72 hours of receipt of the asset; and
- Reconcile annual physical counts to CAS reports.

The Capital Asset Policy requires that all departments conduct an annual physical inventory of its capital assets as part of the year-end financial reporting requirements. During this process, any asset found without a tag is to be tagged and recorded in the CAS. The policy also requires that all assets must be recorded in CAS. All changes arising from the conduct of the physical inventory must be documented and entered into the CAS system.

Failure to comply with the Capital Asset Policy reduces the effectiveness of the policy and the concurrent controls it is designed to impose. Non-compliance also impairs the City's ability to properly record all assets in the financial records of the City and safeguard assets.

The Chief Engineer stated that they do not currently have access to the CAS. He is currently awaiting training so that in the future the Commission will be able to comply with the City's policy.

#### **Recommendations**

We recommend that the Commission:

- Follow the City of Detroit Capital Asset Policy;
- Tag all City of Detroit assets within 72 hours of receipt;
- Record all assets in the CAS system;
- Record all acquisitions, transfers or disposals in the CAS system; and
- Reconcile the physical count to CAS records.

## **5. Inadequate Management Oversight of Personal Service Contracts (PSC)**

The Commission does not properly monitor payments to personal service contractors. The following conditions were found:

- Two personal service contractors were paid more than their contract amount for a full fiscal year resulting in their total compensation exceeding their contract amounts. They were overpaid a total of \$8,575 for the 2006-2007 fiscal year;
- Three personal service contractors were paid at a higher rate than their contracts for two pay periods;
- Personal service contractors were not required to sign their time cards and did not always sign the time summary submitted to Payroll. Sample time records for four consecutive weeks in 2008 for two personal service contractors revealed that the contractors actually signed only one of the four time records; and
- During May 2007, hours were input into the payroll system for all eight contractors but the hourly rate used for all the contractors was \$0.00. Gross payroll adjustments for the advances received in lieu of regular payroll checks were included in the subsequent pay period but the hours used for four of the eight contractors were a 0.5-hour less than input in the prior period.

Personal service contractors should be paid according to their contract terms. It is management's responsibility to review payroll records, particularly at the commencement of a new contract, to ensure that personal service contractors are accurately compensated.

Failure to uniformly enforce a contract or document the reasons for exceptions reduces the effectiveness of the contract and the concurrent controls it mandates. It also creates an impression that City contracts are not important and can therefore be deliberately or inadvertently ignored.

The Director stated that she is not responsible for entering pay rates into the payroll system. She stated that formerly she received a Payroll Register report that would have allowed her to review payroll. She stated that she did not receive copies of the report during the audit period.

### **Recommendations**

We recommend that Commission management:

- Become familiar with the terms of the PSC;
- Review payroll registers to ensure PSC employees are properly paid; and
- Require PSC employees to document time worked each pay period.

## **6. Failure to Adequately Control Fuel Cards**

The Commission had been issued three fuel cards assigned to Commission employees. The auditor documented the following conditions:

- The Cable Commission could not account for two gas cards issued to their department and assigned to two former employees. Both employees had been gone for over eighteen months.
- The Commission did not cancel a gas card issued to a former employee who was discharged for embezzlement in September 2007 until July 2008.

The Commission had not returned any gas cards which were either unused or retrieved from terminated employees.

Good control over assets such as fuel cards requires that the Cable Commission management keep track of the assignment of the fuel cards. Cable Commission management should have filled out a Fuel H.I.D. Card Request form (cancellations, replacements, initial issue or other) and returned any unassigned fuel cards immediately. Management supervision and oversight must exist to safeguard City assets against theft or misappropriation.

The Commission's lack of internal controls over the fuel cards increases the probability that fuel could be misappropriated.

Commission management was unaware of two of the cards and was unaware of the procedure to be followed when employees, who had fuel cards assigned to them, were no longer Commission employees.

## **Recommendations**

We recommend that Commission management:

- Return fuel cards that are no longer being used, or no longer in the possession of the employees to whom they were originally issued;
- Keep track of any fuel cards issued to Commission employees;
- Fill out an H.I.D. card request form to deactivate unused gas cards; and
- Retrieve gas cards from employees who are terminated or no longer assigned a gas card.

## **FINDINGS RELATED TO OTHER DEPARTMENTS**

### **1. The Finance Department Did Not Provide Documentation Showing that the Cable Commission's Imprest Cash Account Was Closed Appropriately**

During the prior audit of the Commission (July 2005 – August 2007) conducted by the Office of the Auditor General, we confirmed that the Commission's imprest cash account had a balance of \$525.10. The Commission's fiscal year 2006-2007 Imprest Cash Fund Report showed a balance of \$525.10. On September 12, 2007, the Commission sent a letter to the Finance Department-Treasury Division requesting that the account be closed. The account was closed on September 7, 2007.

In the Finance Department's report of City imprest cash accounts dated February 21, 2008, which was submitted to the Budget, Finance and Audit Committee of the Detroit City Council, the Finance Department listed \$3,800 as the authorized amount for the Commission's imprest cash.

The Commission's fiscal year 2007-2008 Imprest Cash Fund Report showed a balance of \$0.

Good accounting practice requires that proper records be maintained. The Finance Department is responsible for all financial transactions of the City and should maintain appropriate records. The Finance Department should have accurate records for all accounts. Neglecting to maintain proper accounting records may lead to errors in the City's Financial Statements and allows for misuse or abuse to go undetected.

Including the Commission's imprest cash funds in the listing of authorized City imprest cash accounts creates an error in the imprest cash sub-ledger.

It is not known at this time why the Finance Department included the Commission's imprest cash in the February 21, 2008 report. They were unable to provide any documentation showing: that a journal entry was made in the DRMS to close the account; the disposition of the \$525.10 imprest cash balance; that the difference between the authorized imprest cash and the actual imprest cash of \$3,274.90 was recorded in DRMS as a shortage or loss; and that the \$170,627.29 loss reported in our prior audit report was recorded in DRMS.

### **Recommendations**

We recommend that the Finance Department:

- Review and correct their historical imprest cash records;
- Close out the Commission's imprest cash fund and correctly record the closing entries in DRMS; and
- Properly record the \$170,627.29 embezzlement of imprest cash funds in DRMS.

## **2. There Were Unexplained Irregularities in the Cable Commission's Payroll**

The Human Resources Department, the Finance Department-Accounts Division-Payroll Audit Section, and the Commission failed to properly manage and monitor the payroll activities of the Commission. Specifically:

- The Commission had a City of Detroit employee listed on their payroll register who never worked for the Commission. The Commission did not question the inclusion of the employee on their payroll register. The employee remained on the Commission register and on the wrong payroll cycle for several months.
- Two personal service contractors were paid at an hourly rate in excess of their contract rate for one full contract year (July 2006 through June 2007), which resulted in \$8,575 being paid in excess of the contract amounts. Payroll input forms prepared and approved by the Human Resources Department specified an incorrect hourly rate for each of the contractors. Payroll Audit did not uncover the error or correct it.
- Three personal service contractors were paid at a higher rate than their respective contract rates for two pay periods in October 2006. Two of these same contractors were paid for 116.1 and 148.8 hours respectively during one of the pay periods.
- In May 2007, the payroll register for a two-week period showed that although hours were submitted for all eight personal service contractors, the system generated payroll checks for \$0.00. The error was discovered by Human Resources - Payroll and the contractors received payroll advance checks in lieu of their normal payroll checks. The payroll for the next two-week period contained payroll adjustments for all eight contractors although the hours used to compute the adjustments were not accurate for four of the adjustments.

Good internal controls over a payroll system require that all payroll information, including departmental assignment information, be verified before input into the payroll system and that documentation be maintained to support any input or changes to the system. Good internal controls also require that personal service contractors be paid according to their contract terms. All input forms to the payroll system should be adequately reviewed for accuracy before being submitted. Payroll Audit should verify the accuracy of information received on the input forms to the actual personal service contracts. Any change to the hourly rate of a personal service contract should occur only on receipt of an amended contract. The Human Resources Department and the Finance Department-Accounts Division-Payroll Audit Section should maintain adequate documentation supporting any rate changes.

Failure to adequately control data entered into the payroll system can result in over or under payment of monies to employees and personal service contractors. Inadequate verification and documentation of payroll changes reduces the accuracy of payroll payments and financial reporting as well as reducing the accountability for this important function.



The following explanations have been provided:

- The Human Resources Department stated that the employee in question was listed in the Non-departmental Agency, which includes the Commission as well as other activities but that the employee was not charged to the Commission's cost center. Input errors caused the employee to be listed on the Commission's payroll register and to be included in the wrong payroll cycle. Commission management stated that they no longer receive the payroll register report from Payroll, which would have allowed them to recognize the error.
- Input forms prepared by Human Resources for the two personal service contractors contained incorrect hourly rates. The error was not detected by Human Resources, Payroll Audit or the Commission. Discussions with management representatives of the Commission, the Human Resources Department and the Finance Department-Accounts Division-Payroll Audit Section failed to produce satisfactory explanation why the incorrect hourly rate for the two personal service contractors was not discovered or why the payroll system permits payments to contractors in excess of their contract amount.
- Human Resources management stated that the three personal service contractors were paid at a rate higher than their contract rates in October 2006 because of a programming error. The contractors were incorrectly coded to receive an adjustment due to an increase in the minimum hourly wage.
- Human Resources management stated that an input error by the payroll clerk was responsible for the system generating payroll checks based on a default hourly rate of \$0.04 or less. They also stated that the new timekeeping system has a control feature that will prevent personal service contractor payroll computations being based on the default hourly rate.

Human Resource management has stated that, based upon the information provided during the course of the audit, they will attempt to recover all monies paid to personal service contractors in excess of their contract amounts or their correct hourly rates.

### **Recommendations**

We recommend that:

- The Commission review all payroll related reports on a timely basis to ensure that payroll information, including hourly rates, is correct, and that Commission management question any anomalies in the information provided.
- Both the Human Resources Department and the Finance Department -Payroll Audit Section provide the details of the procedures included in the current or the new payroll system that will prevent these types of irregularities from recurring.



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## ATTACHMENT A

February 13, 2009

Mr. Loren Monroe, CPA  
Auditor General  
Office of the Auditor General  
Coleman A. Young Municipal Center  
2 Woodward Avenue, Suite 208  
Detroit, Michigan 48226

### **Re: Cable Commission Audit for the Period June 2006 – June 2008**


Dear Mr. Monroe:

Pursuant to the audit for the period June 2006 through June 2008 which was performed by the City of Detroit's Office of the Auditor General ("OAG"), the Detroit Cable Communications Commission ("Cable Commission") respectfully submits its responses to the OAG's finding and recommendations.

### **AUDIT PURPOSE**

The Detroit City Charter's Section 4-205 (1) in pertinent part states that audits of the financial transactions of city agencies will be conducted at least once every two (2) years or as directed by the city council. The records from the Office of the Auditor General reveal that except for the 2005-2007 imprest cash audit performed in 2007, this is the first comprehensive audit of the Detroit Cable Communications Commission's ("Cable Commission's") internal control procedures for transactions of cash receipts, revenue, payroll, disbursements, and inventory. It's certainly an important benchmark and provides a value added platform for the Cable Commission's improved adherence to financial controls.

We understand that a timely audit promotes the discovery of practices and/or processes that are out of alignment with established fiscal controls, and thereby provides valuable reports on identified weaknesses and targeted corrective actions, improves organizational productivity, acts as a deterrent to employee theft/fraud, helps to increase credibility of financial status, increases employee knowledge of the correct policies and procedures, and enhances public trust in the management of our fiscal affairs.



Our shared goal is to safeguard the financial assets of the City of Detroit. Responses from the Cable Commission are put forth from a mindset of and commitment to continuous improvement.

## **SUPPLEMENTAL BACKGROUND**

The Cable Commission is providing supplemental background information to present a more thorough depiction of the organizational challenges and transitions encountered before and during the audit period.

The 2005/2006 fiscal year marked the beginning of significant organizational staffing and resource reductions including the sudden resignation of the executive director (note that the deputy director position was already vacant), the mandated budget reduction in excess of \$400,000 that reduced full time and contractual positions and operational resources, the un-appointment of experienced staff and employee embezzlement. All Cable Commission employees perform diverse responsibilities to sustain our overall effectiveness. For example, since 2005, the current executive director has performed responsibilities for both the executive and deputy director positions as well as for the telecommunications manager position.

Throughout 2006, the Cable Commission faced the dual challenge of attempting to complete a franchise renewal process with Comcast while simultaneously working to prevent the passage of "lethal" legislation that was slated to eliminate or substantially reduce local government control over the franchising process.

January 2007 ushered in a year of unprecedented legislative reform to the cable/video franchise process, agreements between providers and local governments, and the resulting services and products. In accordance with the new statute, between February and April 2007, the City of Detroit, received applications and granted uniform franchise agreements to both Comcast and AT&T.

The National Association of Telecommunications Officers and Advisors acknowledged the Cable Commission's excellence in government programming by granting an award in 2007.



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## **AUDIT FINDINGS AND RECOMMENDATIONS**

### **1. Inappropriate Segregation of Duties**

#### **Response:**

It is true that a Cable Commission employee who had DRMS training and access was also in a position to accept fees, issue receipts, prepare journal entry forms, make deposits at Treasury and reconcile accounts. However, to add clarity, up to four Cable Commission employees received fees and issued receipts, while two employees reviewed and approved transactions. A level of reconciliation was shared between the depositor of funds and the "DRMS administrator."

For a limited duration in 2007, the Cable Commission received assistance from the Finance Department's Project Management Office to assist with the processing of financial transactions.

Duties are segregated whenever possible but remain constricted due to limited staffing and competing responsibilities. The Cable Commission is in the process of hiring an employee who will help close this administrative gap.

### **2. Controls Over Cash Receipts are Inadequate**

#### **Response:**

Beginning December 2008, the administrative and financial affairs related to the Wireless Telecommunications Site Review Committee ("Wireless Committee") were transferred to the Planning and Development Department. The Cable Commission created the log to account for wireless funds received and added the logged data as a standing agenda topic at the bi-monthly meetings to increase accountability by making the transactions more transparent.

Cable Commission employees are aware of Finance Directive 20 and make every effort to comply with the 48 hour cash deposit requirement.

Although not subject to a financial directive, the Cable Commission acknowledges that the application of a restrictive endorsement on negotiable instruments is a good practice and will adopt it.

The Cable Commission maintains internal records of cash receipts.



Duties are segregated whenever possible but remain constricted due to limited staffing and competing responsibilities and availability. The Cable Commission is in the process of hiring an employee who will help close this administrative gap.

### **3. Inadequate Monitoring of the Payroll Process**

#### **Response:**

The questionable employee mentioned in the audit never appeared on reports or documents shared with the Cable Commission from the Budget and Human Resources Departments. Also, the salary for this employee was not withdrawn from the Cable Commission's cost centers, nor were payroll checks forwarded to the Cable Commission for distribution.

It was the policy and practice of the Cable Commission to have employees review and sign time records. As a media production services provider, full time employees and contractors performed their responsibilities in "the field" and worked diverse hours. Therefore, for this and other reasons, at the time of submission, persons may not have been available to sign time records.

Audit reveals that the inter-organizational checks and balances are working.

During the audit period through the time of this writing, the Cable Commission did not receive the oft referred to payroll register report and was informed that the payroll register report was not available for distribution to agencies.


As a result of this audit and subsequent discussion with the OAG, the Cable Commission has requested access to the payroll register report.

In September 2008, the Cable Commission began capturing employee time via Work Brain.

### **4. Record Keeping for Fixed Assets is Inadequate and Does Not Conform to the Capital Asset Policy**

#### **Response:**

The Cable Commission acknowledges the need for substantial improvement in its compliance with the Capital Asset Policy (2003) and will take corrective actions.



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Annual physical inventories of capital assets have been performed; the Cable Commission maintains internal records.

The Cable Commission requires assistance from the Finance Department to record assets in the City's capital asset system, as at this time we do not have trained employees who have access to the Oracle assets system.

**5. Inadequate Management Oversight of Personal Service Contracts (PSC)**

**Response:**

As the creator/originator, the Cable Commission was and is familiar with the terms of the personal services contracts.

It is the Cable Commission's expectation that all personal service contractors be compensated according to the terms of the contracts.

**During and after the audit period, the Cable Commission did not receive the payroll register report cited in the audit report.** The OAG is aware of this information. We have been informed that the payroll register was an internal payroll document not subject to agency distribution. Hence, the auditors are privy to reports that were not available to agencies for their administrative use. In the absence of access to the payroll register report, what document/report would have revealed these discrepancies?

The Cable Commission has requested ongoing access to the payroll register report in order to monitor payroll practices for contractors.

Effective September 2008, personal service contractors began documenting hours worked via Work Brain.

**6. Failure to Adequately Control Fuel Cards**

**Response:**

Since July 16, 2008, only one Cable Commission employee has had a validly issued gas card from the General Services Department. When the Cable Commission initiated an investigation about gas card procedures, we discovered that a former employee was categorized as active and as a result, the card was immediately deactivated.

We are in compliance with the gas card policy. A Fuel H.I.D. card request was completed and provided to the General Services Department.

## **FINDINGS RELATED TO OTHER DEPARTMENTS**

### **2. There Were Unexplained Irregularities in the Cable Commission's Payroll**

As previously stated throughout this document, the Cable Commission did not receive the payroll register report, and therefore, could not have used it as a tool to decipher payroll irregularities of any nature.

The Cable Commission has requested access to the payroll register report and will use it and/or other obtained payroll reports to help ensure accuracy.

## **CONCLUSION**

We appreciate the opportunity to respond to these findings and recommendations, and will continue to deploy practices to safeguard the fiscal integrity of the City of Detroit Cable Communications Commission.

Thank you.

Sincerely,



Celeste Stokes McDermott, Esq.  
Executive Director

CC: Kenneth V. Cockrel, Jr., Mayor, City of Detroit  
Detroit Cable Commissioners  
Joseph L. Harris, Chief Financial Officer, City of Detroit



CITY OF DETROIT  
FINANCE DEPARTMENT  
ADMINISTRATION

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## Attachment B

February 3, 2009

Loren E. Monroe, Auditor General  
Office of the Auditor General  
2 Woodward Avenue  
Coleman A. Young Municipal Center, Room 208  
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Finance Department's response for the indicated finding and related recommendations in the July 2006 – June 2008 audit of the Cable Commission, as prepared by the Office of the Auditor General.

Findings Related to Other Departments No. 1. Finance Department Did Not Provide Documentation Showing that the Cable Commission's Imprest Cash Account Was Closed Appropriately

Department's Response:

The Finance Department agrees with the Auditor General's findings and recommendations, regarding not appropriately closing the Cable Commission's Imprest Cash account.

The account was closed September 7, 2007 at the direction of then Chief Financial Officer Roger Short and Deputy Treasurer Timothy Ngare via telephone call and subsequent e-mail instructions to Comerica Bank, however, that information was not available for Auditors; this was just determined today. Support regarding request to close is currently available for review.

In addition, we failed to prepare and process the proper or associated Journal Entry, which we are currently processing. This will be perfected by February 28, 2009.



Findings Related to Other Departments No. 2 There Were Unexplained Irregularities in the Cable Commission's Payroll

Department's Response

The Finance Department agrees with the Auditor General's findings and recommendation regarding unexplained irregularities in the Cable Commission's payroll, as a result, the Finance Department's Payroll Audit Division has made the necessary adjustments to correct rates in the Cable Commission's payroll.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph L. Harris", with a stylized flourish at the end.

Joseph L. Harris  
CFO/Finance Director

JLH:VR:vr  
Cc: Vance Russell



CITY OF DETROIT  
HUMAN RESOURCES DEPARTMENT  
ADMINISTRATION

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February 5, 2009

**ATTACHMENT C**

Mr. Loren E. Monroe, CPA  
Auditor General's Office  
Coleman A. Young Municipal Center  
Suite 208  
Detroit, MI 48234

Dear Mr. Monroe:

Thank you for allowing the Human Resources Department the opportunity to provide a follow-up response to the findings set forth in the Cable Commission's Audit for July 2006 to June 2008.

Let me assure you that your office's observations and recommendations are being taken into consideration as the Human Resources Department strives to continually improve our processes and procedures.

We look forward to working with you in the future.

Sincerely,

Shannon A. Holmes, Director  
Human Resources Department

Enclosure(s)

Human Resources Department  
Audit Responses  
Cable Commission Audit  
July 2006 - June 2008

**Opening Statement**

The Human Resources Department truly appreciates the opportunity to respond to the statements and recommendations made by the Office of the Auditor General (OAG). Furthermore, it should be noted that the Human Resources Department actively participated in the audit process by providing the OAG with any and all documentation requested. HR Department management always made themselves available to meet and discuss concerns that were generated during the course of the audit.

Finally, the HR Department would like to thank the OAG for including the responses that HR provided during the closing meeting in the final Audit Report. Many of the HR Department's responses were published in the final Audit Report and as such, HR will only highlight or address those claims that were not previously addressed by HR in the final Audit Report.

**There Were Unexplained Irregularities in the Cable Commission's Payroll**  
**(See pg. 14 #2)**

The Human Resources Department concurs with the Office of the Auditor General's statement. Prior to the recent audit, several procedures were implemented to help mitigate similar irregularities/concerns on a city-wide basis. It must be noted that even with increased internal controls, staffing shortages coupled with the lack of automated payroll systems contributed to the following errors:

- **Employee on incorrect payroll register**

The Human Resources Department's response to this observation was provided during the closing meeting and is published on page 14 of the Final Audit Report.

HR would like to take the opportunity to highlight the fact that HR-Payroll never placed the employee in question on the Cable Commission's payroll. It appears that the Auditors were not aware of the wide array of payroll reports and how to interpret them. Thankfully, HR was successful in identifying the appropriate reports and instructing the Auditors on how to read these payroll reports.

- **Personal service contractors were paid at a higher rate than their respective contract rates for two pay periods in October 2006**

The personal service contractors showed hours of 116.1 and 148.8 respectively on the payroll register. The HR Department agrees that checks were generated with an incorrect rate due to a programming error in PPS. The error was discovered

immediately and their checks were voided and manual checks were re-issued with adjusted hours of 60.5 and 77.5 respectively. Payroll Audit is responsible for maintaining rates in the payroll system. Notification of recovery will be sent out to all personal service contractors who received overpayment. Upon notification, the HR – Payroll division will begin to collect the overpayment. HR & Payroll Audit will be meeting in the near future to create a process to ensure that such errors are significantly minimized.

- **Two personal service contractors were paid an hourly rate in excess of their contract rate for one full contract year (July 2006 through June 2007)**

This error was initiated by a typographical error. Without the benefit of automation, such errors will occur as a result of manual processing. It is the role of the Finance Payroll Audit Division to audit these types of transactions and find errors when and if they exist. Unfortunately, as mentioned in the Final Audit Report, Payroll Audit did not identify the error. Notification of recovery will be sent out to all personal service contractors who received overpayment. Upon notification, the HR – Payroll division will begin to collect the overpayment. HR is hopeful that with the advent of Workbrain on a city-wide basis and the implementation of ORACLE at some time in the future, many of these errors will decrease significantly.

The Human Resources Department truly appreciates the opportunity to review the Auditor General's Final Audit Report for the Cable Commission. The HR – Payroll division is open to meeting with the Auditor General's staff to review new processes that have been developed with the purpose of avoiding some of the challenges presented above.